

## Message Text

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ACTION EUR-08

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C O N F I D E N T I A L EC BRUSSELS 1317

LIMDIS

E.O. 11652: GDS

TAGS: EFIN, EEC

SUBJECT: EC MONETARY COMMITTEE MEETING

REF: A. EC BRUSSELS 1074 B. EC BRUSSELS 724

1. SUMMARY: THE EC MONETARY COMMITTEE DISCUSSED THE ALLOCATION OF THE QUOTA INCREASE AMONG IMF MEMBERS. THE MEMBER STATES FAVOR APPLYING THE BRETTON WOODS FORMULA TO DETERMINE EACH COUNTRY'S NEW QUOTA, BUT NO DECISION WAS REACHED ON HOW TO APPLY THIS FORMULA. THE EC COMMISSION IS PREPARED TO BEGIN NEGOTIATIONS FOR A BORROWING FROM OPEC COUNTRIES SHOULD A MEMBER STATE REQUEST A LOAN AT THE COUNCIL (FINANCE) MEETING ON FEBRUARY 17. NO AGREEMENT WAS REACHED ON HOW TO GET AROUND GERMANY'S OPPOSITION TO MAKING A DIRECT CONTRIBUTION TO THE OECD SOLIDARITY FUND. END SUMMARY.

2. ALLOCATION OF IMF QUOTAS: COMMISSION OFFICIALS INFORMED US OF THE RESULTS OF THE EC MONETARY COMMITTEE MEETING ON FEBRUARY 12-13. IN PREPARATION FOR THE WP-3 MEETING ON MARCH 4, THE MONETARY COMMITTEE DISCUSSED HOW TO ALLOCATE THE INCREASE IN IMF QUOTAS. THE COMMITTEE PREFERS TO FOLLOW THE BRETTON WOODS FORMULA FOR DETERMINING THE AMOUNT OF QUOTA INCREASE  
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FOR EACH IMF MEMBER. THE COMMITTEE DID NOT DECIDE,

HOWEVER, WHETHER TO APPLY THIS FORMULA TO THE TOTAL AMOUNT OF THE CURRENT AND INCREASED QUOTA OR JUST TO THE AMOUNT OF THE QUOTA INCREASE. THE MAJORITY OF THE MEMBER STATES FAVOR APPLYING IT TO THE TOTAL BUT SOME ADJUSTEMENTS WOULD HAVE TO BE MADE. FOR EXAMPLE, UNDER THIS ALLOCATION FORMULA THE UK'S NEW QUOTA WOULD BE SMALLER THAN ITS CURRENT QUOTA. WHILE THE COMMITTEE COULD AGREE TO REDUCE THE UK'S QUOTA SHARE, IT WAS AGAINST REDUCING THE ACTUAL AMOUNT OF ITS CURRENT QUOTA.

3. PROBLEMS WITH THE US QUOTA: UNDER THE BRETTON WOODS FORMULA APPLIED TO THE TOTAL QUOTA, THE US'S QUOTA WOULD FALL UNDER 20 PERCENT AND THEREBY ELIMINATE ITS VETO VOTE WHEN A FOUR-FIFTHS MAJORITY OF THE TOTAL VOTING POWER IS REQUIRED TO ADOPT A DECISION. TO GET AROUND THIS, THE COMMITTEE CONSIDERED THE POSSIBILITY OF PROPOSING A CHANGE IN THE IMF ARTICLES SO THAT AN 85 PERCENT MAJORITY VOTE WOULD BE REQUIRED IN ALL IMF BOARD DECISIONS. NO AGREEMENT WAS REACHED ON THIS PROPOSAL. THE MONETARY COMMITTEE PLANS TO MEET AGAIN JUST BEFORE THE WP-3 MEETING.

4. QUOTA ALLOCATIONS: THE FOLLOWING IS THE BREAK DOWN OF QUOTAS WHICH THE COMMITTEE CONSIDERED: EC PROPOSALS FOR NEW IMF QUOTAS IN PERCENTAGES

|                          | A       | B       | C                 |
|--------------------------|---------|---------|-------------------|
| INDUSTRIALIZED COUNTRIES |         |         | 62.92 60.67 59.67 |
| OF WHICH EC NINE         |         | (29.64) | (28.32) (28.00)   |
| GERMANY                  | (5.14)  | (5.16)  | (4.96)            |
| UK                       | (9.59)  | (5.37)  | (7.54)            |
| US                       | (22.95) | (19.97) | (20.90)           |
| JAPAN                    | (4.11)  | (5.98)  | (9.96)            |
| OTHER COUNTRIES          |         | 37.08   | 39.33 40.33       |
| OF WHICH                 |         |         |                   |
| PETROLEUM EXPORTING      |         | (4.98)  | (9.96) (9.96)     |
| DEVELOPING COUNTRIES     |         | (20.85) | (20.85) (20.85)   |
| CHINA                    | (1.88)  | (1.41)  | (1.41)            |

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A -- CURRENT ALLOCATION OF QUOTAS

B-- ALLOCATION BASED ON APPLYING FORMULA TO TOTAL OF NEW QUOTA

C -- ALLOCATION BASED ON APPLYING FORMULA TO ONLY THE AMOUNT OF QUOTA INCREASE

4. EUROPEAN COMMON BORROWING FACILITY: THE COMMISSION IS PREPARED TO BEGIN NEGOTIATIONS FOR A DIRECT

PLACEMENT WITH SELECTED OPEC COUNTRIES SHOULD A MEMBER STATE REQUEST A LOAN. ITALY IS EXPECTED TO INDICATE ITS DECISION AS TO WHETHER IT WANTS A LOAN NOW AT THE COUNCIL (FINANCE) MEETING ON FEBRUARY 17. SHOULD THERE BE NO REQUEST, NEGOTIATIONS WILL BE HELD IN ABEYANCE. THE EC'S SOUNDINGS INDICATE THAT SAUDI ARABIA AND KUWAIT ARE THE TWO MOST LIKELY CANDIDATES FOR A PLACEMENT. THESE COUNTRIES REPORTEDLY WOULD DEMAND THE FEWEST "POLITICAL STRINGS" (SEE REFTELS). AS A FALL BACK, THE COMMISSION WOULD CONSIDER A PLACEMENT WITH IRAN, THE TRUCIAL STATES AND POSSIBLY VENEZUELA.

5. OECD SOLIDARITY FUND: THE MEMBER STATES CONSIDERED A COMPROMISE PROPOSAL BY VAN YPERSELE, THE CHAIRMAN OF THE OECD WORKING GROUP, TO GET AROUND THE GERMAN'S OBJECTION TO MAKING A DIRECT CONTRIBUTION TO THE FUND. VAN YPERSELE REPORTEDLY SUGGESTED THAT CREDIT WORTHY COUNTRIES COULD GIVE A DIRECT GUARANTEE TO THE BANK OF INTERNATIONAL SETTLEMENTS TO MAKE A BORROWING FROM THE INTERNATIONAL CAPITAL MARKET IN THE COUNTRY'S NAME. THIS BORROWING WOULD BE EQUIVALENT TO THE COUNTRY'S REQUIRED SHARE IN A LOAN BY THE FUND. THE COMMITTEE RECOGNIZED A NUMBER OF SHORT-COMINGS TO THIS PROPOSAL AND DID NOT ARRIVE AT AN AGREED POSITION. THE FRG CONTINUES TO BE OPPOSED TO MAKING A DIRECT CONTRIBUTION. GREENWALD

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